

CIA/OER/S-06762-75

CURRENT OUTLOOK FOR SOVIET ECONOMY

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MEMORANDUM FOR: Edwin Wendall  
Deputy Director for East-West Trade  
Office of Trade Policy  
Department of the Treasury

Attached is an updated version of the briefing prepared for President Ford's trip to Vladivostok, "USSR: Current Outlook for the Economy," which you requested for Assistant Secretary Parsky's upcoming trip to Moscow.

Chief  
USSR Eastern Europe Division  
Office of Economic Research

Attachment:  
As stated

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USSR: Current Outlook for the Economy

The Soviet economy grew briskly in 1974, little affected by the inflation raging in the West.

- Industrial production increased 8% by Soviet measures, the highest rate since 1970,
- Capital investment grew by 7%, exceeding the plan and nearly double last year's rate,
- Farm output fell 3.7% below the record set in 1973; nevertheless, grain output at 195.6 million tons was the second highest in history and cotton output reached a new high,
- National income (Soviet definition) rose 5%; shortcomings in agriculture held the gain to three-fourths of plan.

The Soviet economic plan for 1975 projects continued high rates of growth but discloses no new initiatives or changed priorities.

- Planned GNP growth is estimated at about 6½% with industrial growth of 6.7% and a recovery in agricultural growth of more than 10%,
- Capital investment is slated to rise by more than 7%; the agricultural sector and the fuel and power industries appear to have first claim on investment resources.

Despite the high growth planned for 1975, major goals of the five-year plan (1971-75) will not be met.

- Many of the consumer goals cannot be reached because of disappointing harvests in 1972 and 1974 and slow construction and assimilation of new production capacity,

- Wage increases will be held down to keep incomes in line with available goods and services,
- Oil and natural gas output will not reach their targets, largely because of the depletion of older fields and technical problems in exploiting new areas.

In 1974 there was a major turnaround in the Soviet hard currency picture.

- High prices for oil and other raw materials increased the value of Soviet exports substantially; at the same time, grain imports declined. An export surplus of \$1 billion to \$1.5 billion is estimated for 1974 and the 1975 surplus may well be larger.
- High gold prices provided an additional cushion. Sales out of current production may have earned the Soviets some \$800 million in 1974. At \$175 an ounce such sales could earn over \$1 billion in 1975 and even more in subsequent years.

The strong Soviet hard currency position will improve the USSR's bargaining power in the international economic arena over the next few years.

- Moscow can now afford to pay cash as it agreed to do recently for \$800 million worth of West German equipment for the Kursk steel complex and for \$100 million of International Harvester crawler tractors.
- The USSR can resist high interest rates and is likely to bargain hard on other commercial terms..
- The Soviets can also consider postponing exports of some commodities, such as diamonds, which probably will bring higher prices in the future.

The main underlying problems in the Soviet economy continue to be:

- An inability to smoothly translate knowledge of new techniques and new products into large-scale production.
- Acute shortages of housing, generally poor quality of consumer goods, and indifferent service in the consumer sector.